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ABSTRACT

How are inflation factors used as an approach to dealing with rapidly increasing higher education prices? This document provides: (1) summary information on the current use of inflation factors by state higher education agencies and other participants in the higher education budgetary process; (2) more detailed information on the use of inflation factors in each of the forty-four responding states; and (3) a list of budget-item indices and their sizes; (4) a list identifying state higher education agency personnel having expertise, or interest, in developing expertise in the use of inflation factors. (Author/KE)

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REPORT ON A SURVEY OF INFLATION FACTORS USED IN RECENT HIGHER EDUCATION BUDGET REQUESTS AND APPROPRIATIONS

May 1, 1975

U.S. DEPARTMENT OF HEALTH
EDUCATION & WELFARE
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The University of Michigan

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IEP is a special program of inservice education and related activities for state officials and board members concerned with the coordination, governance and financing of postsecondary education.

Sponsors

- Education Commission of the States (ECS).
- State Higher Education Executive Officers association (SHEEO).

Funding Sources

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IEP

INSERVICE EDUCATION PROGRAM

The Need

The states' investment in providing opportunities for their citizens in postsecondary education is substantial, both in amount and percentage of state revenues. The officials who recommend or determine the support level for various programs and institutions thus have a special need for information.

For example, they have to know:

- What their states need in postsecondary education.
- How well the need is being met.
- What the costs are.
- What resources exist to get the job done.
- How to develop and maintain quality programs.
- What research shows.
- What efforts have been made to solve or ameliorate particular problems (and what the results have been).
- What criteria and strategies have been developed for program approval and discontinuance.
- What forms of organization and structure exist in central state agencies.
- How to plan for decreasing enrollments.
- How to set priorities.
- What steps have been taken to assure funding for nontraditional programs and institutions.
- How to increase opportunities for persons above "college age."

The ECS/SHEEO Inservice Education Program helps state officials answer such questions.

Services

IEP services fall into two categories. The smaller and less visible category involves gathering information, developing a capability to answer questions for which state officials need immediate answers, identifying resources for those who need them and meeting with individuals. Those functions complement functions of the ECS Department of Higher Education Services, of which the IEP is a part.

The second category of IEP activities involves holding seminars, conferences and meetings where state officials are brought together with the most knowledgeable researchers and practitioners in the field for in-depth examinations of priority issues in postsecondary education.

- Seminars. These are offered on a national and regional basis. Issues are selected by the IEP Planning Board after recommendations from the program's Advisory Council, ECS, SHEEO and other sources. Seminars usually are offered prior to and after legislative sessions. Seminars are scheduled for special groups and on special topics, as well as for those in leadership positions (statewide governing or coordinating board members, SHEEO members and staff, state budget office personnel, legislators, legislative research staffs, governors' education aides, etc.). Duration: Usually 2-2½ days.

- Drive-in Conferences. Adjacent states with comparable problems are invited to sponsor drive-in conferences. Issues are identified by the sponsoring states and the program is developed and offered by IEP. This activity and the single-state meetings provide an opportunity for many people to participate on a low-cost basis. Duration: Usually 1½-2 days.

- Single-State Meetings. At the invitation of a state, IEP will arrange a meeting on issues identified by that state. The meetings offer maximum opportunity to involve constituent board, institutional and agency personnel. Duration: Usually 1-2 days.

Fees

Funds provided by the W.K. Kellogg Foundation, ECS and SHEEO support operation of a central office, program development and some research. Income from participating individuals is essential to underwrite individual seminars and program arrangements.

In all instances, registrants are required to provide for their own travel, food and lodging.

Seminars cost $100 for the first registrant from a given state, $50 for the second and $25 for each thereafter.

For drive-in conferences and single-state meetings, fees are negotiated, based on expenses.

Further information about IEP may be obtained from the project at 300 Lincoln Tower, 1860 Lincoln Street, Denver, Colo. 80203, or by calling (303) 893-5200, Ext. 382.

Project Director: Warren G. Hill.

INTRODUCTION

This report was prepared for the Inservice Education Program Finance and Budgeting Seminar in Ann Arbor, May 4-7, 1975. Among the first topics identified for inclusion in the seminar program was the relatively new use of inflation factors as an approach to dealing with rapidly increasing higher education prices.

Two leading authorities on higher education inflation and inflation factor use, D. Kent Halstead and G. Richard Wynn, agreed to participate in the program and present information on the methodology used in the development of inflation indicators and on their potential value for state-level administrators. To complement their presentations, Center staff conducted a national survey aimed at gathering information on the current use of inflation factors in the various states.

Executive officers of the fifty coordinating and voluntary agencies and governing boards were sent brief questionnaires requesting information on the use of inflation adjustments in their states (see Appendix A for a copy of the questionnaire). By May 1, 1975, forty-four state higher education agencies had responded to the questionnaire. This report provides the results of that survey.

Part I provides summary information on the current use of inflation factors by state higher education agencies and other participants in the higher education budgetary process. The use and non-use of the various different approaches to inflation adjustment are reported. Part II presents more detailed information on the use of inflation factors in each of the forty-four responding states. Appendices are included that list budget-item indices and their sizes and identify state higher education agency personnel having expertise, or interest in developing expertise, in the use of inflation factors.

Findings and descriptions presented in this report are of a preliminary nature. The desirability of presenting the most current information possible at the May 4 seminar precluded the possibility of requesting all forty-four respondents to

review the report prior to its initial distribution. Consequently, the reader is requested to carefully review sections of the report that pertain to his/her state and then advise either James L. Miller, Jr. or J. Michael Erwin of any changes that need to be made prior to the distribution of a final report.

PART I

INFLATION FACTOR USE IN RECENT HIGHER EDUCATION BUDGET REQUESTS AND APPROPRIATIONS

A basic objective of the survey was to determine which states have used inflation factors in recent higher education requests and appropriations. Respondents were asked if their agencies used inflation factors for the current year, 1974-75 in most cases, and for the year for which budget requests are now being considered, 1975-76 for most states. Thirty-three of the forty-four responding state agencies reported that they had used inflation-adjustment techniques for 1974-75 budget requests or recommendations. The number of states adjusting for inflation for the next budget year increased from thirty-three to forty.

Table 1 presents state-by-state information on the inflation techniques used by state higher agencies.[1] The first two columns of information in Table 1 show whether separately identified inflation factors, a "built-in" adjustment for inflation, or no adjustment for inflation was used by the state higher education agency.[2] For 1974-75 requests or rec-

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1. The use of an inflation factor by a state higher education agency is not intended to suggest that the factors or adjustments were developed by the agencies. As it will be pointed out elsewhere in this report, numerous agencies rely on or must use factors developed by institutions and other state agencies.

2. The terms "separately identified" and "built in" adjustment factors apparently were not adequately defined in the questionnaire. "Separately identified" was intended to denote the use of an inflation adjustment whose size and inclusion in the budget request or recommendation were known to the other participants in the higher education budgetary process. "Built-in" adjustment was intended to denote an adjustment that was included in the budget without being identified for or identifiable by other participants in the process. Where other information on the questionnaire indicated that, according to the above definitions, agencies were using separately identified factors rather than built-in adjustments, they are shown in this report to have used separate factors.

TABLE 1 TYPES OF INFLATION FACTORS USED IN RECENT HIGHER EDUCATION APPROPRIATIONS

State	Separate or Built In Factor 1974-75	Separate or Built In Factor 1975-76	Same Factor As State's Other Agencies	Type of Factor Used	Catch Up Factor Used
Alabama	Built In	Separate	No	Single Factor	No
Alaska	Separate	Separate	Yes	Budget Item	No
Arizona	Separate	Separate	Yes	Budget Item	No
Arkansas	None Used	Built In	No	Budget Item	Yes
California					
Colorado	None Used	Separate	No	Budget Item	No
Connecticut	Built In	Built In	No	Budget Item	No
Delaware	Built In	Built In	No	Budget Item	
Florida	Separate	Separate	No	Budget Item	Yes
Georgia					
Hawaii	Separate	Separate	Yes	Single Factor	No
Idaho	Separate	Separate	Yes	Single Factor	
Illinois	Separate	Separate	No	Budget Item	No
Indiana	None Used	Separate	No	Single Factor	
Iowa	Separate	Separate	No	Budget Item	Yes
Kansas	None Used	Separate	No	Budget Item	Yes
Kentucky	Separate	Separate	Yes	Mixed Factor	No
Louisiana	Combined	Combined	No	Single Factor	No
Maine	Separate	Separate	No	Single Factor	No
Maryland					
Massachusetts	Separate	Separate	No	Single Factor	No
Michigan	None Used	Separate	No	Single Factor	No
Minnesota	None Used	Built In	No	Budget Item	No
Mississippi	Built In	Separate	No	Single Factor	
Missouri	Separate	Separate	Yes	Single Factor	No

TABLE 1

(continued)

State	Separate or Built In Factor 1974-75	Separate or Built In Factor 1975-76	Same Factor As State's Other Agencies	Type of Factor Used	Catch Up Factor Used
Montana	None Used	Separate	No	Budget Item	No
Nebraska	Separate	Separate	No	Budget Item	Yes
Nevada	Separate	Separate	No	Budget Item	No
New Hampshire	None Used	None Used	None Used	None Used	No
New Jersey	Built In	Built In	No	Budget Item	No
New Mexico	Built In	Built In	No	Budget Item	Yes
New York	None Used	None Used	None Used	None Used	No
North Carolina	Separate	Separate	Yes	Budget Item	No
North Dakota	Separate	Separate	Yes	Budget Item	Yes
Ohio	Separate	Separate	No	Budget Item	Yes
Oklahoma	Built In	Built In	No	Single Factor	No
Oregon	Separate	Separate	Yes	Budget Item	Yes
Pennsylvania	Built In	Built In	No	Budget Item	No
Rhode Island					
South Carolina	None Used	None Used	None Used	None Used	No
South Dakota	Separate	Separate	No	Budget Item	No
Tennessee	Separate	Separate	Yes	Budget Item	No
Texas					
Utah	Separate	Separate	No	Budget Item	No
Vermont	None Used	None Used	None Used	None Used	
Virginia	Separate	Separate	Yes	Budget Item	No
Washington	Separate	Separate	Yes	Budget Item	No
West Virginia					
Wisconsin	Separate	Separate	No	Budget Item	Yes
Wyoming	Separate	Separate	No	Budget Item/Program	

ommendations, twenty-four states used separately identified factors, eight used built-in factors, and eleven used no factor at all. For 1975-76, thirty-one states used separately identified factors, eight used built-in factors and just four did not use a factor.

The findings for the two budget years suggest an evolutionary pattern in the use of inflation factors by state agencies. Four of the seven state agencies that began to use inflation factors for the coming budget-year requests adopted the built-in approach. Both state agencies that had used inflation factors the preceding year changed from built-in to separately identified factors. No state that had been using separately identified factors changed their practice.

The third column of information in Table 1 shows whether or not the higher education agency in each state used the same factor for inflation adjustment that is used by most or all other agencies of state government in that state. Of the forty state agencies using inflation factors in 1975-76 budget requests or recommendations, twelve use the same factor as other agencies of state government. If inflation rates in the general economy and in higher education differ, as Wynn's findings on liberal arts colleges suggest they do,[3] institutions of higher education in those twelve states may receive inflationary increases that do not accurately represent the true rate of inflation in the price of their goods and services. Looking at the same finding in another way, in only twenty-eight of the forty-four states are college and university budget requests adjusted by an inflation factor developed specifically for higher education prices.

As it was pointed out earlier, nine state agencies changed their inflation adjustment approach from 1974-75 to 1975-76. None of those agencies is among the twelve that use the same factor as that used by other agencies of state government. While the findings are inconclusive, they do suggest that the

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3. Richard G. Wynn, "Inflation in the Higher Education Industry," Professional File, vol. 6, no. 1, January, 1975, p. 2.

use of a single factor for all agencies of state government is a mixed blessing for the state's public colleges and universities. On the one hand, in those states, adjustment for inflation does take place at the state level while it does not take place in some other states. On the other hand, because the adjustments are not based on higher education services and goods and are not made by higher education agencies, improved measurement and adjustment techniques for higher education prices may be more difficult to implement in those twelve states.

Respondents were asked to classify the inflation factor used by their agencies as a single factor used for all of higher education or as different factors used for different types of institutions, programs, or types of budget items. Four states used factors that discriminate by budget item and institution or program. The two most common types of factors used are the single factor and budget-item factors. Eleven states use a single factor to adjust forall public higher education price increases and twenty-nine use factors to adjust for inflation by budget-item type. The latter figure is, however, somewhat misleading. Of those twenty-nine responses, twenty-four provided fairly detailed information on their budget-item approach. Sixteen of those twenty-four responses indicate that only two or three factors are actually used. Those sixteen state agencies use one factor for all salaries, another for all commodities, and in a few cases, another factor for all utilities. In other words, the sixteen agencies are using the two major components of what Wynn describes as the "limited model for measuring inflation," i.e., wage andprice.[4] They do not adjust for inflation by categories within those components.

The percentages used as inflation factors vary substantially. Single inflation factors ranged from 6 to 12 percent with a mean of 8.9 percent. Budget-item factors for the wage component ranged from 4.8 to 19.9 percent with a mean of 10.7 percent. Non-salary factors ranged from 4.5 to 25.0 percent

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4. Ibid., p. 9.

with a mean of 12.0 percent. If the two components of the budget-item approach are combined to yeild a single inflation factor, a rough comparison can be made of the single factor and budget-item approaches. The budget-item combined factor mean of 11.4 percent is considerably larger than the single factor mean of 8.9 percent. Such a comparison, as crude as it may be, suggests that very real differences in funding levels result when one approach to inflation adjustment is chosen over another.

Ten state higher education agencies have adjusted their most recent recommendations to provide for inflationary increases in higher education prior to 1974-75. The size of the catch-up factors varied greatly. They ranged from 2.5 to 15 percent. All ten of those agencies using a catch-up factor use a budget item rather than single factor approach to adjusting for inflation. While it is tempting to conclude that the budget-item approach to measurement and adjustment more readily recognizes price increases necessitating the use of a catch-up factor, the single factor approach could conceivably obviate the need to catch up with inflation. A second interesting but inconclusive finding related to the use of a catch-up factor is the fact that only one of the ten agencies using a catch-up factor uses the same adjustment factor as those used by other agencies of state government. Again, a cause-effect relationship cannot be inferred.

Table 2 shows which participants in each state's higher education budgetary process are using inflation factors. The state higher education agency recommendation most frequently includes an adjustment for inflation with executive recommendations and institution requests at roughly the same frequency. Inflation factor use by the legislature appears to be quite limited.

TABLE 2: INFLATION FACTOR USE BY PARTICIPANTS IN THE HIGHER EDUCATION BUDGETARY PROCESS

State	Institutional Requests	State Agency Recommendations	Executive Budget Recommendations	Legislative Appropriation
Alabama	Yes	Yes	NA	NA
Alaska	Yes	No	No	No
Arizona	No	No	Yes	No
Arkansas	Yes	Yes	No	No
California				
Colorado	Yes	Yes	Yes	NA
Connecticut	Yes	Yes	No	No
Delaware	No	No	Yes	No
Florida	Yes	Yes	Yes	Yes
Georgia				
Hawaii	No	Yes	Yes	No
Idaho	No	Yes	Yes	Yes
Illinois	Yes	Yes	No	No
Indiana	Yes	Yes	Yes	NA
Iowa	Yes	Yes	Yes	Yes
Kansas	Yes	Yes	Yes	Yes
Kentucky	Yes	Yes	Yes	Yes
Louisiana	Yes	Yes	NA	NA
Maine	Yes	No	No	NA
Maryland				
Massachusetts	Yes	Yes	NA	NA
Michigan	No	Yes	No	No
Minnesota	Yes	No	No	No
Mississippi	No	Yes	No	No
Missouri	No	Yes	Yes	No

TABLE 2
(Continued)

State	Institutional Requests	State Agency Recommendations	Executive Budget Recommendations	Legislative Appropriation
Montana	No	Yes	No	No
Nebraska	Yes	No	Yes	Yes
Nevada	Yes	Yes	Yes	Yes
New Hampshire	No	No	No	No
New Jersey	Yes	Yes	Yes	Yes
New Mexico	Yes	Yes	Yes	No
New York	No	No	No	No
North Carolina	Yes	Yes	Yes	NA
North Dakota	Yes	Yes	Yes	Yes
Ohio	No	Yes	No	No
Oklahoma	No	Yes	No	No
Oregon	Yes	Yes	Yes	No
Pennsylvania	Yes	Yes	Yes	Yes
Rhode Island				
South Carolina	No	No	No	No
South Dakota	Yes	Yes	Yes	Yes
Tennessee	No	Yes	No	NA
Texas				
Utah	Yes	Yes	No	Yes
Vermont	No	No	No	No
Virginia	Yes	No	Yes	No
Washington	No	No	Yes	No
West Virginia				
Wisconsin	Yes	Yes	No	NA
Wyoming	Yes	Yes	Yes	Yes

PART II

DESCRIPTIONS OF INFLATION FACTOR USE IN RESPONDING STATES

Descriptions of inflation factor use in each of the responding states are presented below. The individual descriptions present information of the use or non-use of inflation factors by participants in the state's higher education budgetary process and on the type of inflation factor used. In every case, the descriptions are based on responses to questionnaire items. However, some descriptions are interpretations of the information received while others are reproduced verbatim from completed questionnaires.

Alabama: The Alabama Commission on Higher Education used a separately identified, single inflation factor of 8 percent in its recommendations for the 1975-77 biennium. An inflation adjustment of unspecified size had been built into the 1973-75 budget. Alabama institutions of higher education also used inflation factors, generally 10 percent. At the time the questionnaire was completed, information on the use of inflation adjustments by other participants in the budgetary process was not available.

Alaska: The University of Alaska used separately identified, budget-item inflation factors in preparing its 1974-75 and 1975-76 requests. The inflation factors used were the same as those used by most or all other state agencies in Alaska. The decision to use an adjustment factor was made by the State Budget Office.

Inflation factors were used for two types of budget items. A 10 percent inflation factor was used for travel and a 30 percent factor was used for stationery and paper goods. A special price list was used for equipment.

Arizona: The Arizona State Board of Regents used separately identified, budget-item inflation factors in their 1974-75 and 1975-76

requests that were the same as those used by other state agencies. The Budget Division, Department of Administration established percentage increases for inflation. Exceptions beyond those figures had to be justified by state agencies.

"Arbitrary" percentage amounts were used for inflating operating items. No amount was included in requests for personal services and maximum figures were not established for utilities.

Arkansas: The Arkansas Department of Higher Education used built-in factors for adjusting its funding formula for the 1975-77 biennium (inflation adjustments apparently were not made in earlier requests and catch-up factors were included in the current requests). The factors used by the department were not the same as those used by other state agencies but were reportedly similar. Institutional requests varied in the amount of the adjustment included.

Budget item adjustments of 12 percent for 1975-76 and 8 percent for 1976-77 for costs other than equipment and salaries were used in developing non-formula items in the budget. Special inflation factors were used for different formula areas. Using the example given by the respondent, the library formula was based, in part, on historical increases in book costs.

Colorado: The Colorado Commission on Higher Education did not use an inflation factor in arriving at its 1974-75 request but did use separately identified budget item factors in its 1975-76 request. The factors used were decided upon by the staff and commission.

Adjustments to three types of budget items are reported. The commission rejected the use of a "cost-of-living" factor in making adjustments for compensation and instead used "comparison groups of institutions." A 12.8 percent inflation factor was derived for travel. That figure was based on data relating to transportation cost increases in Colorado as analyzed by the University of Denver Business School. A figure of 20 percent based on national price index figures, was used for supplies expenses.

Connecticut: The Connecticut Commission for Higher Education used a built-in inflation factor of 4 percent in its 1974-75 budget request and a factor of 8 percent in its 1975-76 request. The choice of the 8 percent figure is reportedly related to the prior year's cost-of-living increase.

The inflation factor was applied by budget item. Supplies and commodities were inflated at 8 percent but salary adjustments for inflation were not included. Salaries for higher education personnel in the 1975-76 request will be increased by one salary increment with additional adjustments "equal to those for all other state employees."

Requests for support for items over which higher education units have no control were incorporated into the budget request at anticipated costs without reference to the 8 percent inflationary adjustment, i.e., fuel, postage, etc.

Delaware: Delaware State College used built-in inflation adjustments in preparing its 1974-75 and 1975-76 budget requests. The size of those adjustments were not reported. Adjustments were reportedly made by budget item.

Florida: The State University System of Florida uses separately identified, budget-item inflation factors. With minor differences, the 1974-75 and the 1975-76 budget request documents were prepared using similar factors.

Inflation factors were used by the institutions in their 1974-75 requests, by the Board of Regents and the Executive Budget Office, Department of Administration in their recommendations and the legislature in its appropriations. Board of Regents recommendations were made using adjustment percentages for inflation determined through an analysis of historical salary averages and expense item costs. Those costs were converted to constant dollars through the use of various components of Consumer and Wholesale Price Indices. The Department of Administration determined adjustment percentages in a similar manner except that salary averages and costs were not analyzed.

Florida is one of relatively few states reporting that a catch-up factor was used in recent requests. A catch-up

amount was determined that would increase 1975-76 requested appropriations to 1972-73 purchasing power levels.

Hawaii: The University of Hawii used a separately identified, single inflation factor in its 1974-75 and 1975-76 budget requests. The factor, 6 percent for 1975-76, was the same as that used by other agencies of state government in Hawii. A higher rate for individual budget items could be used on an "excetion basis."

Idaho: The Idaho State Board of Education used separately identified inflation factors in its 1974-75 and 1975-76 request. Those factors were the same as those used by other state agencies in Idaho.

The State Board recommended essentially across the board cost-of-living increases in instructional and administrative personnel salaries of 10.2 percent. Those increases are in addition to merit and promotion increases. The governor's recommendations called for smaller increases in the same categories as did the recommendations of the Joint Finance-Appropriation Committee. Budgeting for personnel benefits was recommended for adjustment by between 3 and 18.6 percent depending upon employee classification. Other recommended adjustments in operating expenditures include 25 percent for automobile mileage, 7 percent for air travel, 10 percent for utilities, 15 percent for food, 12 percent for paper, 10 percent for rentals, and 7 percent for other goods and services. Capital outlay adjustments of 40 percent for periodicals and 20 percent for all other library materials were incorporated into the recommendations.

Illinois: The Illinois Board of Higher Education used separately identified inflation factors in its 1974-75 and 1975-76 budget requests. Fiscal year 1975 salary recommendations were adjusted by 5 percent, utilities by 20 percent, and most other items by 3 percent.

For fiscal year 1976, staff recommended 10 percent salary adjustments, 20 percent utility increases, and 9 percent in-

flation adjustments for most other items. In each case, the recommended figure was slightly below the level of the adjustments included in institutional requests to the board. The governor's budget followed board recommendations.

Indiana: The Indiana Commission for Higher Education apparently did not adjust 1974-75 budget requests for inflation but used a separate single factor for 1975-76 requests.

Institutional requests, state agency recommendations, and executive budget recommendations for higher education were adjusted by 10 percent. While the decision to use that factor was made by the state budget director, the commission's study of economic indicators apparently derived the figure.

Iowa: All participants in Iowa's higher education budgetary process for 1975-76 used inflation factors. The Iowa Board of Regents used separately identified, budget-item inflation factors in its 1974-75 and 1975-76 recommendations. Among those inflation factors was a catch-up factor for faculty salaries. The adjustment, a 2.5 percent increase over the 1974-75 level, was reportedly related to both inflation and market conditions for faculty.

Reproduced below is a list of inflation factors used in Iowa in preparing the 1974-75 and 1975-76 budgets.

	1974-75		1975-76	
	Board Request	As Enacted	Board Request	Governor's Recommendati
Salaries				
--Faculty & Institutional Officials	8.0%	7.5%	12.0%	10.0%
--Professional & Scientific Staff	8.0%	11.0%	12.0%	10.0%
--General Service Staff	6.5%	11.0%	13.0%	11.0%
Other Expenditures				
--General Expense	5.0%	5.0%	15.0%	10.0%
--Fuel & Purchased Electricity	(1)	(1)	(1)	(1)
--Equipment	5.0%	5.0%	(2)	(2)
--Library Books	10.0%	10.0%	15.0%	15.0%

--Repairs, Replacement, & Alterations	5.0%	5.0%	(3)	(3)

(1) Contingency appropriation provided for 1974-75; "pass-through" concept requested for 1975-76.

(2) Changed to formula based on depreciation of inventory.

(3) Changed to formula based on major maintenance cost per square feet.

Kansas: The Kansas Board of Regents did not use an inflation adjustment in its 1974-75 request but in its 1975-76 request included a catch-up factor of 10 percent. The Board's 1975-76 request uses an inflation adjustment factor of 15 percent--a figure which includes the catch-up factor. All participants in the Kansas higher education budgetary process used the 15 percent figure.

A 10 percent increase for faculty was used for fiscal year 1976 budgets. The increase "represented a normal increase and a catch-up increase." The Board reportedly justified the adjustment through a comparison of faculty percentage increases for several years with increases in the Consumer Price Index for the same years.

Kentucky: The Kentucky Council on Public Higher Education used separately identified, budget-item inflation factors in budget development for 1974-75 and 1975-76. The factors were the same as those used by other state agencies in Kentucky and were determined by the Executive Department for Finance and Administration.

Adjustments in the budget were based on projected cost-of-living increases. Personal services were increased by 5.5 percent and current operations by 4.5 percent.

Louisiana: The Louisiana Board of Regents uses a funding formula for request purposes. "A minimum percent of implementation of the formula is established and included as an inflation factor that is recommended should an institution's funding level ex-

ceed the minimum level of implementation." In effect, then, the Board uses a combined approach to budgeting that defies classification as either separate or built in. The inflation factor was 3 percent of the previous year's state appropriation for 1974-75 and is 4 percent for 1975-76.

Maine: The University of Maine used a separately identified, single inflation factor in its 1974-75 and 1975-76 budget requests. The decision to use an inflation factor of 9 percent was made by the Board of Trustees. Similar adjustments were not made in the executive budget recommendation and legislative appropriations.

Massachusetts: The Massachusetts Board of Higher Education used a separately identified inflation adjustment in its 1974-75 and 1975-76 requests. While the 1974-75 budget request was made using separate factors by budget item, the 1975-76 request uses a single factor of 12 percent for all items except fuel.

Institutional requests and Board recommendations both used the 12 percent factor. Executive and legislative action on 1975-76 request had not been completed at the time the questionnaire was returned. Therefore, it was not clear whether or not they would use inflation adjustments.

Michigan: The Michigan Department of Education did not use an inflation adjustment in its 1974-75 recommendation. However, its 1975-76 recommendation uses a separately identified single factor of 10 percent.

The decision to use an inflation factor was made by the State Board of Education on the advice of its Higher Education Management Services unit. The unit arrived at the 10 percent figure after an examination of the cost-of-living change for 1970-75. A ten-year cost analysis of HEGIS data is currently underway which will take into account inflation factors. Support for higher education will be demonstrated in "real" terms, i.e., after discounts for inflation.

Minnesota: The Minnesota Higher Education Coordinating Commission apparently did not adjust for inflation in its recommendations

prior to 1975. The 1975-77 recommendation includes a built-in inflation factor used for projecting the cost of fuel and utilities at each campus.

Mississippi: The Mississippi Board of Trustees used a built-in inflation adjustment for its 1974-75 request but adopted a separately identified, single factor of 9 percent for its 1975-76 request. The decision to use that figure was made by the Board and is based on HEGIS programs.

Missouri: The Missouri Department of Higher Education used a separate, single inflation factor in its 1974-75 and 1975-76 budget requests. That factor, 7 percent, was decided upon by the governor and is the same as that used by other Missouri agencies.

Montana: The Montana University System did not initially use an inflation factor in presenting its budget request to the legislature. Instead, it used a zero-base formula model. The state implemented a statewide pay classification plan that was based on the "going rate" concept, thus it was not directly inflation related.

During debates and discussions with legislative committees over needed funding levels, a 10 percent inflation factor was built in to cover operating expenses, i.e., supplies, utilities, travel, etc.

Nebraska: The Nebraska Coordinating Council for Postsecondary Education used separate inflation factors in its 1974-75 and 1975-76 recommendations. Those factors varied by institution and budget item.

While most state agencies were required to absorb inflationary increases, higher education requested inflation increases of between 8 and 18 percent. Each institution developed its own inflation factors by line item.

Wholesale and Consumer Price Indices were used by community colleges in arriving at an adjustment. A separate price survey on hospital costs was used by the University of Nebraska Medical

Center while an 8 percent adjustment was "negotiated" by University of Nebraska administrators.

The Governor's Budget recommendation accepted the institutions' requests where specific line items were accompanied by justification, and generally used 8 percent except on travel which was held at the existing level.

Nevada: The University of Nevada System used separately identified, budget item inflation factors in its 1974-75 and 1975-76 requests. A factor of 12 percent was used for compensation and a factor of 6 percent was used for other budget items. While the factors are not the same as those used by all or most other state agencies, executive budget recommendations and legislative appropriations used the same adjustment factors.

New Hampshire: The New Hampshire Postsecondary Education Commission did not address specific questions included in the questionnaire but did report that the governor, in submitting his budget, insisted that no request for fiscal 1976 exceed the fiscal 1975 budget by more than 5 percent. The legislature is currently in session and, although the final outcome will not be known until June, it appears unlikely that state supported institutions will recieve more than the recommended 5 percent increase in their appropriations.

New Jersey: The New Jersey Board of Higher Education used built-in inflation factors in preparing its 1974-75 and 1975-76 budget recommendations. Those factors represent adjustments to the budget formulas used for the eight State Colleges, Rutgers University, and the New Jersey Institute of Technology.

Salary dollars associated with formula generated staffing models are adjusted annually to reflect the approved state schedule in effect. In the past, this has included cost-of-living increases and normal increments.

Non-salary inflation factors have been developed on the basis of an inflationary trend analysis performed by Rutgers University. The analysis includes a projection of price changes for various expenditures including utilities, books,

postage, paper products and numerous other items (see Appendix B for Rutger's projected item price changes for 1976-77). An overall weighted inflation factor is developed on the basis of the relative proportion of the budget normally allocated by major categories of expenditures.

For the fiscal 1976 budget, the Board of Higher Education's recommendations were based on an 11.5 percent increase in salaries and a 17 percent increase for non-salary items. The large increase reportedly represents a catch-up factor reflecting low institutional funding in fiscal 1975. The Board's recommendations have been reduced by the governor with further reductions anticipated by the legislature.

The New Jersey Treasury Department has instructed the Board not to budget salary increases for fiscal 1977. The Board is therefore changing its practice to use the tentative overall inflation rates that follow:

Instructional programs	7 percent
Physical Plant programs	10 percent
General Support programs	10 percent

New Mexico: The New Mexico Board of Educational Finance used built-in, budget item inflation factors in its 1974-75 and 1975-76 recommendations. Institutions used an average factor of 20 percent in making their requests while the Board used an average factor of 15 percent. The Board's factors were based on studies of individual budget item price increases. While the executive branch accepted the Board's recommendations, reductions were made by the legislature which did not relate directly to size or use of inflation factors.

New Mexico was one of the few responding states to use a catch-up factor. The amounts varied by item and recognized 1973-75 inflation in the 1975-76 requests.

New York: The New York State Department of Education did not use an inflation adjustment in its 1974-75 and 1975-76 requests. Similarly, no inflation factor was used in institutional requests, executive budget recommendations, or legislative appropriations.

North Carolina: The University of North Carolina Board of Governors used separate budget item inflation factors in preparing its 1974-75 and 1975-76 budget requests. The inflation factors used were the same as those used by other state agencies in North Carolina.

The Office of State Budget and Management instructions concerning the preparation of requests for continuation budgets stated that documented rate increases since July 1, 1973, could be submitted. The Board of Governors' instructions to the institutions repeated this provision for rate increases. Each institution separately developed their request for rate increase. Requests were then reviewed by staff of the Board of Governors.

Information on price increases was obtained from the State Purchase and Contract Division. Based on that information and on discussions with the Office of State Budget and Management, allowable percentage of rate increases for different budget items were determined for use in the 1975-77 budget request. The Governor's Budget recommendation to the legislature upheld those percentages. The percentages used included:

--Temporary Wages	15 percent for 1975-76 and additional 7 percent for 1976-77 based on increase in minimum wage law
--Supplies and equipment	25 percent for 1975-76
--Utilities and Fuel	Actual rate increases
--Contractual Services and Rental of Equipment	Actual rate increases
--Library Books	25 percent for 1975-76
--Other Expense (Travel, Postage, Telephone, etc.)	10 percent for 1975-76

North Dakota: The North Dakota Board of Higher Education used separately identified, budget-item inflation factors in its budget requests for 1974-75 and 1975-76. The factors used were the same as those used by most or all other agencies of state government in North Dakota.

Institutional requests and Board of Higher Education recommendations used factors of 19.9 percent for salaries and 25 percent for other budget items. The governor's recommended budget used the same factor for salaries but 15 percent for other budget items. Legislative appropriations used 16.9 percent for salaries and 15 percent for other budget items with the exception of utilities and fuel which were allowed at actual costs if greater than 15 percent.

North Dakota is one of the few states in which a catch-up factor was used. Salary rates were requested in the 1975-76 budget at a level that would restore an 11.9 percent loss to inflation during the 1973-75 biennium. The legislature approved the request and added 5 percent each year for the next two years.

Ohio: The Ohio Board of Regents used separately identified, budget-item inflation factors in its 1975-76 and 1976-77 budget requests. Other participants in the budgetary process did not use inflation factors.

Ohio uses program budgetary models for state-level budgeting. Each functional category within each model was divided into two components: (1) compensation (salary and fringe benefits) and (2) non-compensation (commodities). The compensation component was advanced at a Consumer's Price Index anticipated rate of 7 and 8 percent.

A special university price index was developed to measure the rate of inflation for commodity items purchased by institutions of higher education. A projection of 15.4 and 16.4 percent was used for those items. The two components, when weighted, result in an overall increase of 9.5 and 9.0 percent, factors which reflect the increases necessary to keep even with the anticipated rate of inflation during the next two years.

Using the same methodology, it was found that Ohio institutions had lost 8 percent of their purchasing power during the current biennium. This catch-up factor was included in fiscal 1976 rates. Prospects for obtaining funds for the catch-up increase reportedly appear "slim."

Oklahoma: The Oklahoma State Regents for Higher Education used a single, built-in inflation factor in its 1974-75 and 1975-76 recommendations. That factor, 9 percent, was determined by applying different inflation factors to broad categories of budget items. The aggregate effect was an implicit inflation rate of 9 percent.

Oregon: The Oregon Board of Higher Education used separately identified inflation factors in making its 1974-75 and 1975-76 recommendations. Those factors vary by budget item and are the same as those used by most or all other state agencies.

Institutional requests and Board recommendations were made using a special program that was developed to create price indices. The governor's recommendation used the indices developed by the Board.

The Oregon Board used a catch-up factor in its most recent budget requests. A factor of 15 percent was used to adjust for inflation in 1973-74 and 1974-75.

Pennsylvania: The Pennsylvania State Department of Education used built-in, budget item inflation factors in its 1974-75 and 1975-76 budget requests. While percentage inflation adjustments were used by other participants in the budgetary process, the State Department of Education used variable inflation adjustments developed by a task force comprised of institutional representatives.

The task force determined that the inflationary increse for non-salary budget items within the system was 24.7 percent between 1973-74 and 1974-75. That figure was triple the rate used by the institutions in making their original budget requests and "more than twice as large as is popularly attributed to the economy as a whole." Price increases were apparently determined by the task force in anything but an arbitrary fashion. Price indices, institutional and governmental offices, and suppliers were consulted to determine inflation increases. (Detailed information concerning the methods employed by the task force are available upon request.)

South Carolina: Adjustments for inflation in higher education were not made by any of the participants in the budgetary process in South Carolina.

South Dakota: The South Dakota Board of Regents used separately identified, budget item inglation factors in its 1974-75 and 1975-76 budget requests. Institutional requests and Board recommendations used a factor of 13 percent for salaries and 10 percent for other budget items. The executive budget used factors of 9 percent for salaries and 6 percent for other items. The legislature increased salaries by an increment of $400 plus 2.5 percent while increasing other budgetary expenditures by 6 percent.

Tennessee: The Tennessee Higher Education Commission used separately identified, budget item inflation factors in its 1974-75 and 1975-76 budget recommendations. The factors were the same as those used by most or all other state agencies in Tennessee.

Institutional requests in Tennessee are inflated by a uniform state-level factor. In 1974-75 the executive budget recommendations called for 8.5 percent inflationary increases in salaries and 5 percent increases for other expenditures. However executive budget recommendations for 1975-76 used a 2.5 percent factor for some budgets and no factor for others. Rather than an adjustment factor, those increases that appear in the recommendations represent an allocation of available dollars. In 1974-75, the legislature provided an increase of 8 percent per student. 1975-76 appropriations are pending.

The commission reports that, in its 1974-75 budget recommendation, projected increases in the Consumer Price Index were used to supplement the state uniform factor. Similarly, studies of energy costs have been made by commission staff. However, the revenue picture in Tennessee seems to have made the use of inflation factors an "academic exercise" since they are the first thing to go when cuts are made in the budget.

Utah: The Utah State Board of Regents used separately identified, budget item inflation factors in its 1974-75 and 1975-76

requests. Institutional and Board requests used variable factors that, with the exception of salary items, were accepted by the legislature. The Board adjusted salary requests primarily through use of the Consumer Price Index. Various wholesale price indices were used in determining needs in non-salary areas.

Vermont: Adjustments for inflation per se were not made by participants in the budgetary process in Vermont. The Vermont State Colleges used NCHEMS program budgetary procedures to totally reorient their budget. Increased requests for budget items were required to be justified individually.

Virginia: The Virginia State Council on Higher Education did not use inflation adjustments in its recent requests. Rather, Budget Examiner guidelines are used in developing executive budget recommendations. Consequently, a state-level factor is used to adjust for inflation in institutions of higher education.

The 1974-76 biennial executive budget recommendations were developed in the fall of 1973 and included built-in price escalation factors. The factors were not separately identified in the published budget bill and budget document. Institutions of higher education were advised in a separate communication of the basis for the executive recommendations, including the inflation factors.

The Virginia General Assembly has provided the governor with a contingency appropriation to assist in meeting "unbudgeted costs." The appropriation has been used to assist institutions in meeting increased costs and other unforeseen costs, other than personal service. Separate provision has been made for a statewide 4.8 percent annual adjustment in salary scales for each year of the biennium.

Washington: The Washington Council on Higher Education did not use inflation factors in its 1974-75 and 1975-76 requests. Rather, an inflation factor was applied to institutional requests by the Executive Budget Office. The factors are reportedly budget item adjustments that can be applied selectively

by the Budget Office. Salaries at Washington institutions of higher education are adjusted through surveys conducted biennially.

Wisconsin: The University of Wisconsin System used separately identified budget-item inflation adjustments in its 1974-75 and 1975-76 budget requests. Institutions adjusted for inflation on the basis of actual past increases while the central administration of the University of Wisconsin System developed a special price index.

The central administration's Special Price Index for non-salary items was used to request unfunded inflationary increases which had occurred since the 1973-75 biennial request was developed. It was also used to predict increases through the coming biennium (1975-77).

The impact of inflation on salaries was handled separately. Cost-of-living increases, based on Consumer Price Index information, were requested for academic salaries. Classified service increases are handled by the State Bureau of Personnel for all state agencies.

The governor recommended that no increases be allowed for higher education in the 1975-77 budget. At the time of writing, legislative hearings are in process.

Wyoming: The Wyoming Higher Education Council used separately identified budget-item inflation factors in its 1974-75 and 1975-76 recommendations. Institutional requests adjusted for inflation at an 18 to 24 percent level. Council and State Budget Office recommendations and legislative appropriations used 12 to 15 percent adjustments.

APPENDIX A

SURVEY OF INFLATION FACTORS USED IN RECENT HIGHER EDUCATION BUDGET REQUESTS AND APPROPRIATIONS

This brief questionnaire is being sent to all fifty states to collect quickly information about inflation factors built into the budget requests and appropriations for higher education this year. The survey is part of the ECS-SHEEO Inservice Education Program funded by the Kellogg Foundation. The results will be distributed at several of the seminars being conducted as part of that program. Copies of the tabulated responses will also be mailed to all who respond to the questionnaire.

The dates in the questionnaire apply specifically to states which have annual budget cycles (1974-75 is treated as the current year and 1975-76 as the year for which budget requests are now being considered). If yours is a state with a different budget calendar, please change the dates given in the questions to make them appropriate to your state. Space is provided in Question 7 for elaboration or discussion of any item which requires it.

5. Was a "catch up" factor included in the most recent requests specifically related to inflation in years prior to 1974-75?

   Yes _____ No _____
   If so, what amount or percent?_____
   What year(s)?_____

6. Is there a staff person with your agency who has, is developing, or intends to develop expertise in the use of inflation factors?

   Yes _____ No _____

   If yes, who?_____

7. Please elaborate below on any items which require further comment.

Please return the completed questionnaire to:
Education Commission of the States - SHEEO
Inservice Education Program
The Center for the Study of Higher Education
The University of Michigan
Ann Arbor, Michigan 48104

1. Did your agency use a separately identified inflation adjustment factor in its request(s) for funds and/or appropriations? Was an inflation factor "built into" the budget without being identified separately?

	Separate	"Built In"	No Adjustment
1974-75 Request	_____	_____	_____
1975-76 Request	_____	_____	_____

2. If an inflation factor was used for higher education, was it the same as that used for most or all other agencies of state government?

Yes_____ No _____

3. Was a single factor used, or were different factors used for different types of institutions, programs, or types of budget items? (Please explain in question 7)

Single Factor_____ By Type of Institution_____
By Program _____ By Type of Budget Item _____
Other _____

4. Who decided upon the specific inflation factor(s) to be included in the requests? What was the amount or percentage? Was it based upon some special techniques for estimation? (Fill in only the applicable blanks)

	Was an Inflation Factor Used?	Who Decided?	Amount or Percentage?	Was A Special Technique Used? Which One?*
Institutional Requests	_____	_____	_____	_____
State Agency Recommendations	_____	_____	_____	_____
Executive Budget Recommendations	_____	_____	_____	_____
Legislative Appropriations	_____	_____	_____	_____

*See Question 7. Feel free to enclose relevant material but please do not let attention to this question delay your response. We are more interested in knowing quickly who is using inflation factors than in getting (at this time) all of the details.

APPENDIX B

INFLATIONARY TRENDS
1976-77

OBJECT CODE & TITLE		PROJECTED PRICE CHANGE
201	Food	5%
203	Gas	15%
204	Electric	15%
205	Water & Sewer	21%
206	Fuel	3%
210	Supplies	10%
	Administrative	5%
	Educational Administration	5%
	Physical Plant	10%
	Education	10%
	Research	10%
	Auxiliary Services	10%
211	College Announcements	10%
220	Vehicular Supplies	8%
225	Custodial Supplies	12%
243	Library Books	16%
244	Binding	7%
301	Travel	5%
302	Telephone-Service & Equipment	10%
303	Telephone-Data Communications	7%
304	Telephone-Toll Charges	10%
305	Insurance	10%
307	Advertising	8%
308	Subscriptions & Memberships	19%
309	Legal & Investigative	7%

OBJECT CODE & TITLE	PROJECTED PRICE CHANGE
Administration	5%
Education Administration	10%
Physical Plant Bldg.	10%
Education	10%
Research	10%
Auxiliary Services	10%
720 Additions & Improvements-Vehicles	3%

OBJECT CODE & TITLE		PROJECTED PRICE CHANGE
310	Other Services	10%
314	Telephone-Installation Costs	33%
321	Postage	30%
340	Rent-Buildings & Grounds	8%
344	Rent-Data Processing Equipment	0%
345	Rent-Other	7%
405	Repairs & Maintenance-Buildings & Grounds (Physical Plant Only)	7%
410	Repairs & Maintenance-Equipment	10%
420	Repairs & Maintenance-Vehicles	10%
505	Replacement & Renovations-Buildings & Grounds	5%
510	Replacement & Renovation-Equipment	10%
	Administration	5%
	Education Administration	5%
	Physical Plant Bldg.	10%
	Education	10%
	Research	10%
	Auxiliary Services	10%
520	Replacement & Renovation-Vehicles	10%
705	Additions & Improvements-Buildings & Grounds (Physical Plant Only)	15%
710	Additions & Improvements-Equipment	7%

James R. Patin
State Board of Regents
P.O. Box 44362, Capitol Station
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David I. Carter
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Albany, New York 12224

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Ohio Board of Regents
88 East Broad Street, Suite 770
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Appendix C

The people listed below have, or intend to develop, expertise in the use of inflation factors.

James R. Kidder
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Montgomery, Alabama 36104

Robert E. McCormack
Department of Higher Education
401 National Old Line Building
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340 Capitol Avenue
Hartford, Connecticut 06101

Ms. Carol Walters
State University System of Florida
107 West Gaines Street, Suite 210
Tallahassee, Florida 32304

Marjorie P. Lindblom
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500 Reisch Building
119 South Fifth Street
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Gene Rasmassen
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Oklahoma State Regents for Higher Education
500 Education Building
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